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Does FDI promote regional development? Evidence from local and regional productivity spillovers in Greece

Vassilis MONASTIRIOTIS* and Jacob A. JORDAAN**

Abstract

Studies on the productivity spillovers of FDI have concentrated on the national-sectoral level. As a result, little is known about the impact of FDI on absolute and relative regional economic performance. In this paper we examine this issue by relying on a unique dataset of over 20,000 Greek firms for the period 2002-2006 covering all sectors of economic activity. We examine the spatial distribution of foreign-owned firms in the country and analyse the effect that their presence – at the local, regional and national levels – has on the productivity of domestic firms. We find strong evidence suggesting that foreign-owned firms self-select into regions and sectors of high productivity. Net of this selection effect, the impact of foreign presence on domestic productivity is negative – although at the very local level some positive spillover effects are identifiable. The bulk of the effects concentrate in non-manufacturing activities, high-tech sectors, and medium-sized high-productivity firms. Importantly, this effect is not constant across space however. Productivity spillovers tend to be negative in the regions hosting the main urban areas in the country but positive in smaller and more peripheral regions. In this way, despite the tendency of FDI to concentrate in a limited number of areas within the country – those of the highest level of development – the externalities that FDI activity generates to the local economies appear to be of a rather equilibrating character.

Key words: regional development, FDI, productivity spillovers, Greece, spatial heterogeneity

JEL classification: F23, R11, C23, O12

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